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11. (U) Sensitive but unclassified. Not for public Internet.

12. (SBU) SUMMARY: Embassy Astana warmly welcomes your October 5-8 visit to Kazakhstan, which comes at a particularly opportune time. With its upcoming 2010 chairmanship of the Organization for Security and Cooperation in Europe (OSCE) and its thriving energy sector, Kazakhstan is showing increasing confidence on the international stage. Kazakhstan has proven to be an increasingly reliable security partner and a steady influence in a potentially turbulent region. The pace of democratic reform, however, has slowed, with political institutions, civil society, and the independent media still underdeveloped. Our fundamental strategic objective is a secure, democratic, and prosperous Kazakhstan that fully embraces market competition and the rule of law; continues its partnership with us on the global threats of terrorism, weapons of mass destruction (WMD) proliferation, and narco-trafficking; and develops its energy resources in a manner that bolsters global energy security. Your visit can reinvigorate the U.S.-Kazakhstan Energy Partnership and shed light on the government's plans and underscore our goals and priorities regarding Kazakhstan's future energy transactions and policies. END SUMMARY.

ECONOMY: AGGRESSIVE STEPS TO TACKLE ECONOMIC CRISIS

13. (SBU) Kazakhstan is Central Asia's economic powerhouse, with a GDP larger than that of the region's other four countries combined. Economic growth averaged over nine percent per year during 2005-07, before dropping to three percent in 2008 with the onset of the global financial crisis. The International Monetary Fund is predicting negative two percent growth for Kazakhstan in 2009, with a modest economic recovery poised to begin in 2010. Astute macroeconomic policies and extensive economic reforms have played an important role in Kazakhstan's post-independence economic success. The government has taken significant steps to tackle the domestic reverberations of the economic crisis. It has allocated around \$20

billion to take equity stakes in private banks, propped up the construction and real estate sectors, and supported small- and medium-sized enterprises and agriculture.

¶4. (SBU) The banking sector continues to struggle, as Kazakhstan's leading commercial banks have been unable to repay creditors and seek to restructure their debt. In July, BTA Bank, the country's largest commercial bank, declared a moratorium on interest and principal payments. BTA's external debts are valued at \$13 billion, of which the bank said it will repay \$3 billion this year. In 2008, BTA's net losses were \$7.9 billion, and total obligations exceeded the value of its assets by \$4.9 billion. Kazakhstan authorities continue to investigate former BTA Chairman Mukhtar Ablyazov and other former top managers of the bank. On July 14, the Prosecutor General's office charged 12 members of BTA's credit committee with embezzlement, and six were found guilty and sentenced to jail.

OIL AND GAS PRODUCTION

¶5. (SBU) Kazakhstan produced 70.7 million tons of oil in 2008 (approximately 1.41 million barrels per day (bpd), and is expected to become one of the world's top ten crude oil exporters soon after 2015. From January - August, Kazakhstan increased oil production by 8.8 percent, to 41.83 million tons, compared to the same period last year. U.S. companies -- ExxonMobil, Chevron, and ConocoPhillips -- have significant ownership stakes in each of Kazakhstan's three major hydrocarbon projects: Tengiz, Kashagan, and Karachaganak.

¶6. (SBU) While Kazakhstan has significant gas reserves (2.0 trillion cubic meters is a low-end estimate), current gas exports are less than 10 billion cubic meters (bcm), in part because gas is being reinjected to maximize crude output, and in part because Gazprom, which has a monopoly on the gas market in the region, pays producers only a fraction of the going European price. The country's 40 bcm gas pipeline to China will help to break that monopoly, although the majority of the gas that will be exported via

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this pipeline will come from Turkmenistan and Uzbekistan, not Kazakhstan. The first line of the China gas pipeline was completed in July, and the first shipments are planned in November. Kazakhstan gas exports to China will be modest, 4-6 bcm annually. The government of Kazakhstan has made several public statements confirming that it has no objection to the Nabucco gas pipeline project, but the government has emphasized that Kazakhstan does not and will not produce enough gas to supply the pipeline.

OIL AND GAS TRANSPORTATION

¶7. (SBU) With significant oil production increases on the horizon, Kazakhstan must develop additional transport routes to bring its crude to market. Our policy is to encourage Kazakhstan to seek diverse transport routes, which will ensure the country's independence from transport monopolists. Currently, most of Kazakhstan's crude is exported via Russia, although some exports flow east to China, west across the Caspian through Azerbaijan, and south across the Caspian to Iran. In July, for example, national oil company KazMunaiGaz (KMG) announced the completion of the Atasu-Alashankou segment, and in October, it expects to begin crude shipments via the Kenkiyak-Kumkol segment of the 3,000 kilometer oil pipeline to China, which will initially carry 200,000 bpd, with expansion capacity of 400,000 bpd.

¶8. (SBU) We support the expansion of the Caspian Pipeline Consortium (CPC) pipeline, which is the only oil pipeline crossing Russian territory that is not entirely owned and controlled by the Russian government. We also support implementation of the Kazakhstan Caspian Transport System (KCTS), which envisions a "virtual pipeline" of tankers transporting up to one million barrels of crude per day from Kazakhstan's Caspian coast to Baku, from where it will flow onward to market through Georgia, including through the Baku-Tbilisi-Ceyhan (BTC) pipeline. Negotiations with international oil companies to build the onshore pipeline and offshore marine infrastructure for this \$3 billion project have recently stalled, although the government has expressed an interest in resuming talks.

RENEWABLE ENERGY

¶9. (SBU) Despite the abundance of relatively cheap fossil fuels in Kazakhstan, the government is clearly serious about climate change, renewable energy, and energy efficiency. The March ratification of the Kyoto Protocol, the July law on renewable energy, and the draft law on energy efficiency demonstrate that the government is taking the first legislative steps to achieve its ambitious goal of increasing the share of renewable energy in Kazakhstan's total power consumption from 0.02 percent to 4.0 percent by 2020.

ELECTRICAL POWER

¶10. (SBU) Despite these legislative mandates to stimulate the development of renewable energy sources, in 2008, coal-fired power plants produced 83 percent of the 80 billion kilowatt hours of electricity generated in Kazakhstan. According to national power grid operator KEGOC, hydropower generated 12 percent of Kazakhstan's electricity, and natural gas power plants generated the remaining five percent. Among the issues and challenges facing the electrical power industry in Kazakhstan, generating equipment is old and in need of modernization, the number of peak power plants is limited, generation capacity is unevenly distributed, and the country's power grid is not integrated, so that western Kazakhstan must import electricity from Russia.

¶11. (SBU) On September 17, Kazakhstan President Nursultan Nazarbayev attended a ceremony in the northern Kazakhstan city of Ekibastuz to mark the completion of the country's second north-south power transmission line. The 500 kilovolt (kV) line, completed ahead of schedule at a cost of \$290 million financed by the World Bank and European Bank for Reconstruction and Development, will

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allow the country's national grid operator to deliver power generated in Kazakhstan's north to major load centers in the south. President Nazarbayev celebrated the completion of this new line by asserting that Kazakhstan's southern region, including the major cities of Almaty, Shymkent, and Taraz, would no longer depend on power transmission from Kazakhstan's southern neighbors, and that Kazakhstan has "become fully independent from all other electricity exporters."

NUCLEAR ENERGY

¶12. (SBU) Kazakhstan is committed to developing a civilian nuclear power industry. On September 25, Kazatomprom Vice President Sergei Yashin announced at the Eurasian Energy Forum that Kazakhstan has completed a feasibility study for a VBER-300 nuclear power plant in Aktau under a Russian-Kazakhstani joint venture established in October 2008. According to Yashin, the plant will be powered by a pressurized water reactor of 300 megawatts (mW) and the first of two blocks will be operational in 2016. In 2008, Kazakhstan produced 8,500 tons of uranium (24 percent of total world output), and three percent of the world's nuclear fuel. The country plans to increase both production figures dramatically. By 2020, for example, Kazakhstan expects to produce 13 percent of the world's nuclear fuel. Kazatomprom has joint ventures with atomic energy companies from Japan, France, Russia, India, China, and Canada. On September 24, Kazakhstan signed a nuclear trade agreement with Canada, under which Canada agreed to sell nuclear technology and equipment to Kazakhstan.

NON-PROLIFERATION: A HALLMARK OF BILATERAL COOPERATION

¶13. (SBU) Non-proliferation cooperation has been a hallmark of our bilateral relationship since Kazakhstan quickly agreed to give up the nuclear weapons it inherited from the USSR after becoming independent. The Kazakhstanis recently ratified a seven-year extension to the umbrella agreement for our bilateral Cooperative Threat Reduction (CTR) program, which remains the dominant component of our assistance to Kazakhstan. Key ongoing CTR program activities include our efforts to secure the radiological material at the Soviet-era Semipalatinsk nuclear test site and to provide long-term storage for the spent fuel (sufficient to fabricate 775 nuclear

weapons) from Kazakhstan's BN-350 plutonium breeder reactor.

¶14. (SBU) The government of Kazakhstan is responsible for funding the transport of the BN-350 spent fuel from Aktau to Baikal-1. On September 18, the Prime Minister signed two decrees authorizing reserve funding and duty-free equipment transfer that will help ensure continuation of spent fuel transport operations. While these decrees are helpful and timely, we continue to urge the government to take further steps, such as adopting simplified procedures for tax exemptions, customs clearances, and tariff and non-tariff exemptions.

¶15. (SBU) The Kazakhstanis are active participants in the Global Initiative to Combat Nuclear Terrorism and are seeking additional ways to help them burnish their non-proliferation credentials. On April 6, President Nazarbayev announced that Kazakhstan is interested in hosting the Nuclear Threat Initiative's IAEA-administered international nuclear fuel bank. We welcomed the offer, but explained to the Kazakhstanis that they need to work out the details directly with the IAEA. President Nazarbayev also has called for the United Nations to designate August 29 as annual World Non-Proliferation Day, which we support.

DEMOCRACY: SLOW GOING

¶16. (SBU) While the Kazakhstani government articulates a strategic vision of democracy, it has lagged on the implementation front. President Nazarbayev's Nur Otan party officially received 88 percent of the vote and won all the parliamentary seats in August 2007 elections which OSCE observers concluded did not meet OSCE

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standards. The next parliamentary and presidential elections are scheduled for 2012.

¶17. (SBU) When Kazakhstan was selected to be 2010 OSCE chairman-in-office at the November 2007 Madrid OSCE Ministerial meeting, Foreign Minister Tazhin promised his government would amend Kazakhstan's election, political party, and media laws in accordance the recommendations of the OSCE and its Office of Democratic Institutions and Human Rights (ODIHR). (NOTE: Foreign Minister Tazhin also promised that as OSCE chairman, Kazakhstan would support the OSCE's Human Dimension and preserve ODIHR's mandate, including its critical role in election observation. END NOTE.) President Nazarbayev signed the amendments into law in February. While key civil society leaders were disappointed that the new legislation did not go further, we considered it to be a step in the right direction and continue to urge the government to follow through with additional reforms.

¶18. (SBU) On September 3, the Balkash district court sentenced Kazakhstan's leading human rights activist Yevgeniy Zhovtis to four years imprisonment for vehicular manslaughter. The charge stemmed from a July 26 accident in which Zhovtis struck and killed a pedestrian with his car. On September 15, Zhovtis' lawyers filed an appeal of the conviction, which is still pending. Local and international civil society representatives and opposition activists heavily criticized the trial for numerous procedural violations. Some observers alleged that the harsh sentence imposed on Zhovtis, a strong critic of the regime, was politically motivated. The Ambassador has publicly urged the Kazakhstani authorities to provide Zhovtis access to fair legal proceedings, and we have raised the case with senior government officials in Astana and in Washington.

¶19. (SBU) While the Kazakhstanis pride themselves on their religious tolerance, religious groups not traditional to Kazakhstan, such as evangelical Protestants, Jehovah's Witnesses, Hare Krishnas, and Scientologists, have faced difficulties with the authorities. Parliament passed legislation in late 2008 aimed at asserting more government control over these "non-traditional" religious groups. Following concerns raised by civil society and the international community, President Nazarbayev chose not to sign the legislation, but instead sent it for review to the Constitutional Council -- which ultimately declared it to be unconstitutional.

¶20. (SBU) Though Kazakhstan's diverse print media include many newspapers sharply critical of the government and of President Nazarbayev personally, the broadcast media are essentially government-controlled. On July 10, President Nazarbayev signed into law Internet legislation which will provide a legal basis for the government to shut down and block websites whose content allegedly violates the country's laws. This appears to be a step in the wrong direction at a time when the Kazakhstan's record on democracy and human rights is in the spotlight because of its forthcoming OSCE chairmanship. We have expressed our disappointment that the legislation was enacted, and have urged the government to implement it in a manner consistent with Kazakhstan's OSCE commitments on freedom of speech and freedom of the press.

AFGHANISTAN: POISED TO DO EVEN MORE

¶21. (SBU) Kazakhstan has supported our stabilization and reconstruction efforts in Afghanistan, and in recent months, has expressed a willingness to do even more. We signed a bilateral blanket over-flight agreement with Kazakhstan in 2001 that allows U.S. military aircraft supporting Operation Enduring Freedom (OEF) to transit Kazakhstani airspace cost-free. This was followed in 2002 with a bilateral divert agreement that permits our military aircraft to make emergency landings in Kazakhstan when aircraft emergencies or weather conditions do not permit landing at Kyrgyzstan's Manas Air Base. There have been over 6500 over-flights and over 60 diversits since these agreements went into effect. In

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January, Kazakhstan agreed to participate in the Northern Distribution Network -- which entails commercial shipment through Kazakhstani territory of non-lethal supplies for U.S. troops in Afghanistan. Kazakhstan is working on sending several staff officers to the International Security Assistance Forces (ISAF) headquarters in Kabul and is considering providing small-scale non-combat military support, as it did for five-plus years in Iraq.

¶22. (SBU) In 2008, the Kazakhstani government provided approximately \$3 million in assistance to Afghanistan for food and seed aid and to construct a hospital, school, and road. The Kazakhstanis are finalizing a proposal to provide free university education in Kazakhstan to Afghan students. The government has also offered to provide training to Afghan law enforcement officers at law enforcement training institutes in Kazakhstan, and is working on a 2009-2011 assistance program for Afghanistan that might include free university education for up to 1,000 Afghan students. The Kazakhstanis hope to make Afghanistan one of their priority issues during their 2010 OSCE chairmanship.

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